

UNITED STATES OF AMERICA
BEFORE -
THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D.C.

STATE OF COLORADO
DIVISION OF BANKING
DENVER, COLORADO

Written Agreement by and among)
OLATHE BANCORPORATION, INC.)
Olathe, Colorado)
OLATHE STATE BANK)
Olathe, Colorado)

FEDERAL RESERVE BANK)
OF KANSAS CITY)
Kansas City, Missouri)
and)
COLORADO DIVISION OF BANKING)
Denver, Colorado)

Docket Nos. 00-013 WA/RB-HC
00-013 WA/RB-SM

WHEREAS, in recognition of their common goal to restore and maintain the financial soundness of Olathe Bancorporation, Inc., Olathe, Colorado (the "BHC"), a registered bank holding company, and its subsidiary bank, the Olathe State Bank, Olathe, Colorado (the "Bank"), a state chartered bank that is a member of the Federal Reserve System, the BHC, the Bank, the Federal Reserve Bank of Kansas City (the "Reserve Bank"), and the Colorado Division of Banking (the "State") have mutually agreed to enter into this Written Agreement (the "Agreement"); and

WHEREAS, on _____, 2000, the boards of directors of the BHC and the Bank, at duly constituted meetings, adopted resolutions:

(1) authorizing and directing, CPS ~~aa-t-jeJz~~*MML*, to enter into this Agreement on behalf of the BHC and the Bank, respectively, and consenting to compliance by the BHC and the Bank and their institution-affiliated parties, as defined by sections 3(u) and 8(b)(3) of the Federal Deposit Insurance Act, as amended (12 U.S.C. 1813(u) and 1818 (b)(3)) (the "FDI Act"), with each and every applicable provision of this Agreement; and

(2) waiving any and all rights that the BHC and the Bank may have pursuant to 12 U.S.C. 1818 to: a hearing for the purpose of taking evidence on any matters set forth in this Agreement; to judicial review of this Agreement; and to challenge or contest, in any manner, the basis, issuance, validity, terms, effectiveness or enforceability of this Agreement or any provisions hereof.

NOW, THEREFORE, without this Agreement constituting an admission of any allegation made or implied by the Board of Governors or the State, the BHC, the Bank, the Reserve Bank, and the State agree as follows:

1. Within 90 days of this Agreement, the BHC and the Bank shall submit to the Reserve Bank and the State an acceptable joint written plan to achieve and maintain sufficient capital at the Bank. The plan shall, at a minimum, address and consider: (a) the Bank's current and future capital requirements, including compliance with the Capital Adequacy Guidelines of the Board of Governors (12 C.F.R. Part 208, App. A and B); (b) the volume of the Bank's

adversely classified assets; (c) the adequacy of the Bank's loan loss reserves; (d) any planned growth in the Bank's assets; (e) the Bank's anticipated level of retained earnings; (f) the Bank's anticipated and contingent liquidity needs; (g) the source and timing of additional funds to fulfill the future capital and loan loss reserve requirements set forth in this Agreement; and (h) procedures for the Bank to notify the Reserve Bank and the State, in writing, within 5 days of the end of any calendar quarter that the Bank's tier 1 leverage ratio falls below 4.00 percent and to submit to the Reserve Bank and the State an acceptable written plan that details the steps the Bank will take to increase its tier 1 leverage ratio to no less than 6.00 percent within 60 days.

2. (a) The Bank shall not declare or pay any dividends without the prior written approval of the Reserve Bank, the Director of the Division of Banking Supervision and Regulation of the Board of Governors (the "Director"), and the State. Requests for approval shall be received at least 30 days prior to the proposed date for declaration of dividends and shall contain, but not be limited to, information on the Bank's earnings for the most recent annual and interim periods.

(b) The BHC shall not declare or pay any dividends without the prior written approval of the Reserve Bank and the Director. Requests for approval shall be received at least 30 days prior to the proposed date for declaration of dividends and shall contain, but not be limited to, information on consolidated earnings for the most recent annual and interim periods.

3. The BHC shall not, directly or indirectly, incur any debt without the prior written approval of the Reserve Bank. All requests for prior written approval shall contain, but not be

limited to, a statement regarding the purpose of the debt, the terms of the debt, and the planned sources for debt repayment, and an analysis of the cash flow resources available to meet such debt repayment.

4. (a) Within 30 days of this Agreement, the Bank shall submit an acceptable written plan to the Reserve Bank and the State describing specific actions that the board of directors proposes to take in order to correct the internal control weaknesses and deficiencies noted in the independent accounting firm's review of internal controls. A copy of the independent accounting firm's written report shall also be forwarded to the Reserve Bank and the State.

(b) Within 180 days of the Bank's implementation of the acceptable plan required by paragraph 4(a) hereof, the Bank shall again engage an independent accounting firm to review and issue a report on the Bank's compliance with its internal control procedures.

5. Within 45 days of this Agreement, the Bank shall submit to the Reserve Bank and the State acceptable written policies and procedures designed to strengthen the electronic funds transfer function, which shall address, consider and include the following: (a) the segregation of duties; (b) same day authentication and reconciliation of wire transfers; and (c) a secure environment for electronic funds transfer codes and equipment, including access restrictions.

6. Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank and the State acceptable written loan policies and procedures. The loan policies and procedures shall, at a minimum, address, consider, and include:

- (a) Adequate appraisal and valuation procedures, including guidelines on when appraisals and other valuations of loan collateral are to be performed;
- (b) standards for appraisal review;
- (c) specific underwriting and pricing criteria;
- (d) requirements and documentation for granting exceptions to the loan policy; and
- (e) other recommendations regarding the loan policy that were detailed in the report of examination of the Bank that concluded on June 6, 2000 (the "Report of Examination").

7. The Bank shall maintain, through charges to current operating income, an adequate valuation reserve for loan losses. The adequacy of the reserve shall be determined in light of the volume of criticized loans, the current level of past due and nonperforming loans, past loan loss experience, evaluation of the probable losses in the Bank's loan portfolio, including the potential for the existence of unidentified losses in loans adversely classified and the imprecision of loss estimates, and the requirements of the Interagency Policy Statement on the Allowance for Loan and Lease Losses, dated December 22, 1993, SFAS 114, SFAS 5, and examiners' other criticisms as contained in the Report of Examination. A written record shall be maintained indicating the methodology used in determining the amount of reserve needed to

cover total loans and documentation shall be maintained to support the methodology. The reserve methodology shall be submitted to the Reserve Bank and the State within 60 days of this Agreement and shall be updated quarterly (December 31, March 31, June 30, and September 30) thereafter.

S. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the State an acceptable written plan designed to improve the Bank's position through repayment, amortization, liquidation, additional collateral or other means on each loan or asset in excess of \$100,000 that was past due as to principal or interest in excess of 90 days as of the date of this Agreement or that was adversely classified or listed as special mention in the Report of Examination. The plan for each loan shall not be amended or rescinded without the prior written approval of the Reserve Bank and the State. The Bank shall submit a plan for each additional loan or other asset in excess of \$100,000 that becomes past due as to principal and interest for more than 90 days, is adversely classified internally by the Bank, or is adversely classified or listed for special mention in any subsequent report of examination or visitation of the Bank. The plan for each loan shall be formally approved by the Bank's loan committee and shall include:

- (a) A description of the current status of the loan;
- (b) contemplated actions to be taken, the time frame for such actions, and the projected status of the loan after the actions have been taken, including the balance owing and valuation of anticipated collateral; and
- (c) the borrower's acknowledgement of and response to the plan.

9. (a) Within 60 days of this Agreement, the Bank shall take all steps necessary to correct the documentation and credit information deficiencies in the Bank's loan files listed in the Report of Examination.

(b) Within 60 days of this Agreement and quarterly thereafter (December 31, March 31, June 30, and September 30), the Bank shall submit to the Reserve Bank and the State a report detailing the Bank's progress in correcting the technical exceptions listed in the Report of Examination. In all cases where the Bank is unable to obtain needed documentation or credit information, the Bank shall document the actions taken to secure the information and the reasons the information could not be obtained. The Bank shall maintain this documentation in the related credit file for supervisory review.

10. Within 30 days of this Agreement, the Bank shall submit to the Reserve Bank and the State acceptable policies and procedures for the post-funding review of each new and

renewed loan to identify documentation deficiencies and oversee correction of the deficiencies. The Bank personnel conducting the review shall report quarterly to the Bank's board of directors on the number of files reviewed, deficiencies identified, and deficiencies corrected and

uncorrected. The Bank shall maintain a copy of each quarterly report for supervisory review.

11. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the State acceptable written procedures for the independent review of the loan portfolio and an acceptable loan grading system. The loan review procedures shall be designed to identify and

categorize problem credits and to assess the overall quality of the Bank's loan portfolio and shall, at a minimum, address, consider, and include:

- (a) A description of the risk grades to be assigned to each loan;
- (b) the designation of the individuals who will be responsible for determining

loan grades;
- (c) the frequency of loan grading;
- (d) a description of which loans will be graded; and
- (e) for each loan identified as a watch list loan, a written statement,
maintained in the appropriate credit file, detailing the reason why such
loan merits special attention.

12. Within 45 days of this Agreement, the Bank shall revise the liquidity reports that are provided monthly to the Bank's board of directors to include data concerning the Bank's off balance sheet activity, securities mix, duration of the investment portfolio, trend analysis on liquidity ratios, and identification of alternative sources of funding.

13. The Bank shall not accept any brokered deposits except in compliance with the provisions of section 29 of the FDI Act (12 U.S.C. 1831 f). The Bank shall notify the Reserve Bank and the State, in writing, in the event that the Bank requests any waiver from the Federal Deposit Insurance Corporation (the "FDIC") of the restrictions imposed by, section 29, and shall notify the Reserve Bank and the State of the FDIC's disposition of any request for such a waiver.

14. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the State a written business plan, approved by the Bank's board of directors, concerning the Bank's proposed business activities for the remainder of 2000. The plan shall, at a minimum, provide for or describe:

- (i) Management, lending, and operational objectives, and the specific strategies for achieving such objectives;
- (ii) financial performance objectives, including plans for asset growth, earnings, liquidity and capital, supported by detailed, quarterly pro forma financial statements;
- (iii) a complete analysis of the Bank's overhead expenses, with the aim of reducing overhead expenses;
- (iv) establishment of a quarterly review process to monitor the actual income and expenses of the Bank in comparison to budgetary projections; and
- (v) quarterly review of and necessary revision to the business plan.

(b) A written business plan for each calendar year subsequent to 2000 shall be submitted to the Reserve Bank and the State by March 31st of the applicable calendar year.

(c) Any revisions to the business plans required by paragraph 14(a)(v) hereof shall be approved by the Bank's board of directors and shall be submitted to the Reserve Bank and the State within five days of approval by the Bank's board of directors.

15. The Bank shall take the necessary steps, consistent with sound banking practices, to correct all violations of law and regulation set forth in the Report of Examination.

16. (a) Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank and the State a written job description detailing the duties and responsibilities of the Bank's consumer compliance officer. These duties and responsibilities shall include, but not be limited to, the development and implementation of internal controls, procedures, and reviews necessary to ensure compliance with consumer laws and regulations, and the training and education of Bank personnel regarding compliance with consumer laws and regulations. The Bank shall provide the consumer compliance officer with: (i) sufficient authority to carry out assigned duties and responsibilities; (ii) appropriate training; and (iii) adequate resources to implement and maintain an effective compliance program.

(b) The consumer compliance officer shall conduct compliance training sessions for the Bank's officers and employees on consumer laws and regulations pertinent to each officer's and employee's specific job duties. The training shall be conducted on a regular basis and shall, at a minimum, address any changes in consumer laws and regulations that affect the Bank's operations, areas of criticism noted in reports of examination, any weaknesses noted through the Bank's internal compliance review program, and any changes in the Bank's internal forms and procedures related to consumer compliance.

17. Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank and the State an acceptable internal compliance review program to monitor the Bank's compliance

with consumer laws and regulations applicable to the Bank's operations. The program shall, at a minimum, identify the applicable consumer laws and regulations, identify the bank products subject to the consumer laws and regulations, designate the procedures to be used to conduct a compliance review, and designate staff to conduct each review. The staff designated to conduct the reviews shall be of sufficient competency, knowledge, and authority to identify and correct exceptions. The results of each review and any follow-up action shall be reported to the Bank's board of directors.

18. Within 30 days after the end of each calendar quarter (September 30, December 31, March 31, and June 30) following the date of this Agreement, the boards of directors of the BHC and the Bank shall submit a joint written progress report to the Reserve Bank and the State setting forth in detail the actions taken to comply with each provision of this Agreement and the results of those actions. The boards of directors shall certify in writing to the Reserve Bank and the State that each director has reviewed each quarterly progress report required by this paragraph. Such reports may be discontinued when the Reserve Bank and the State, in writing, release the BHC and the Bank from making further reports.

19. The policies, procedures, plans, and program required by paragraph 1, 4(a), 5, 6, 8, 10, 11, and 17 hereof shall be submitted to the Reserve Bank and the State for review and approval. Acceptable policies, procedures, plans, and a program shall be submitted to the Reserve Bank and the State within the time periods set forth in this Agreement. Where applicable, the BHC and the Bank shall adopt all approved policies, procedures, plans, and the program within 10 days of approval by the Reserve Bank and, with regards to the Bank, the State

and then shall fully comply with them. During the term of this Agreement, the BHC and the Bank shall not amend or rescind the approved policies, procedures, plans, and the program without the prior written approval of the Reserve Bank, and with regards to the Bank, the State.

20. All communications regarding this Agreement shall be sent to:

- (a) Ms. Susan E. Zubradt
Assistant Vice President
Federal Reserve Bank of Kansas City
925 Grand Boulevard
Kansas City, Missouri 64198
- (b) Mr. Richard Fulkerson
Colorado State Bank Commissioner
Colorado Division of Banking
1560 Broadway, # 1175
Denver, Colorado 80202-4144
- (c) Mr. Leslie O. Mergelman
Olathe Bancorporation, Inc.
Olathe State Bank
500 U.S. Highway Business Loop
Olathe, Colorado 81425

21. Notwithstanding any provision of this Agreement to the contrary, the Reserve Bank, with regard to the BHC and the Bank, and the State, with regard to the Bank, may, in their sole discretion, grant written extensions of time to the BHC and the Bank to comply with any provision of this Agreement.

22. The provisions of this Agreement shall be binding upon BHC and the Bank and all of their institution-affiliated parties, in their capacities as such, and their successors and assigns.

23. Each provision of this Agreement shall remain effective and enforceable until stayed, modified, terminated or suspended by the Reserve Bank, with regard to the BHC and the Bank, and the State, with regard to the Bank.

24. The provisions of this Agreement shall not bar, estop, or otherwise prevent the Board of Governors or the State or any other federal or state agency from taking any other action affecting the BHC or the Bank or any of their current or former institution-affiliated parties and their successors and assigns.

25. This Agreement is a "written agreement" for the purposes of, and is enforceable by the Board of Governors as an order issued under, section 8 of the FDI Act.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the 2nd day of ~, 2000.

Olathe Bancorporation, Inc.

By: ~-

Olathe State Bank

By:

Federal Reserve Bank of Kansas City

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By:

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Colorado Division of Banking

By:

The undersigned directors of the BHC individually acknowledge reading the foregoing Agreement and approve of the consent thereto by the BHC.

Verel L. Catlin

Erlene Glover

v

Leslie O. Morgan

Thomas R. Mraule

Ralph Reed

The undersigned directors of the Bank individually acknowledge reading the foregoing Agreement and approve of the consent thereto by the Bank.

Verel L. Catlin

Erlene Glover

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Leslie O. Morgan ~

Thomas R. Mraule

Ralph Reed

